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PLAN

For The

PRIVATIZATION AND RELOCATION OF THE MEDICARE ADMINISTRATION TO MONCTON, NEW BRUNSWICK

And

ECONOMIC BENEFITS FOR THE PROVINCE OF NEW BRUNSWICK

Prepared For: The Office of the Premier of New Brunswick

Prepared by: Blue Cross of Atlantic Canada and
The Greater Moncton Economic Development Authority

Date: March 21, 1985

TABLE OF CONTENTS

		PAGE
PURPOSE		1
EXECUTIVE SUMMARY		2
SECTIONS		
I	Background Information to this Report	4
II	Economic Development and Technological Growth Opportunities for the Province of New Brunswick	7
	- An Insurance Center for the Atlantic Region Based in New Brunswick	7
	- Specific Growth Opportunities for Downtown Moncton	8
	- Technology Opportunities	9
	- Economic Benefits for the Province of New Brunswick	10
III	Plan for the Privatization and Relocation of Medicare	11
	- The Plan - What Would be Transferred	11
	- Quality of the Present System	12
	- Timing of Transfer Flexible	12
	- Transition Period	13
	- Immediate Management Control	13
	- Staffing	14
	- Computer System Conversion	14
	- Timetable	15
	- Cost Guarantees - Blue Cross Takes the Risk	15
	- Administration Cost Information	16
	- Cost Savings with Blue Cross of Atlantic Canada Administration	16
	- Benefits for the Province	17
IV	Facilitating The Relocation Process	18

APPENDICES

A - Blue Cross and Revitilization of Downtown Moncton, May, 1984

B - Business Plan - Blue Cross of Atlantic Canada, Sept 14, 1984

C - Proposal to Transfer Medicare Administration to Blue Cross of Atlantic Canada, February 6/85 .

D - Blue Cross of Atlantic Canada 1983 Annual Report

E - Blue Cross of Atlantic Canada 1982 Annual Report

F - Medicare Information prepared by the Director of Administration, Department of Health. Provided to Blue Cross of Atlantic Canada on March 4, 1985.

PLAN
For The
PRIVATIZATION AND RELOCATION OF THE MEDICARE ADMINISTRATION TO MONCTON, NEW BRUNSWICK
And
ECONOMIC BENEFITS FOR THE PROVINCE OF NEW BRUNSWICK

PURPOSE

Blue Cross of Atlantic Canada and the Greater Moncton Economic Development Authority have proposed a plan which will provide the opportunity to establish an insurance industry based growth center and a high technology information processing center in New Brunswick. The plan is keyed on the growth multiplying synergy which will develop from the addition of the staff and facilities necessary to process Medicare claims to the staff and facilities of Blue Cross of Atlantic Canada. The plan also represents a vital link in the economic growth strategy for the Greater Moncton area and the redevelopment of downtown Moncton.

The purpose of this report is to detail the plan for the relocation of Medicare to Moncton, to highlight the economic and technological development opportunities this plan presents for the Province of New Brunswick, and to describe the substantial cost savings and administrative advantages which its implementation would provide for the Province.

EXECUTIVE SUMMARY

The Plan for Privatization and Relocation of Medicare

The suggested plan for the transfer of Medicare to Blue Cross of Atlantic Canada administration in Moncton provides for a 2½ year transition period, during which the staff will be located in Fredericton, employed by Government and use the Government's Univac computer. During the 2½ year transition period, Blue Cross of Atlantic Canada will convert the computer system to IBM operation, plan and build its facilities in downtown Moncton, provide a comprehensive consultation and out-placement support program for present Medicare employees and prepare the staff for its move to Moncton, October 1, 1987.

Benefits for the Province of New Brunswick

- Blue Cross will guarantee administration costs for 10½ years at 3% of payments taking the risk and protecting the province from operating cost overruns. Annual cost savings over existing Medicare administration would exceed $1,000,000 annually.

- Total saving to the province would be $11,200,000 for the 10½ year period from October 1, 1987.

- Blue Cross of Atlantic Canada will convert the computer system to IBM operation at a fixed cost to the province of $1,100,000, taking the risk and protecting the province from development cost overruns.

- The province would recover its systems conversion cost in one year of operations.

- Although a preferred transfer plan has been defined, Blue Cross is flexible on the timing of relocation and on the contractual arrangements to meet the specific requirements of the Province.

- A comprehensive report, "Proposed Employee Adjustment Plan and Process", was prepared for Blue Cross by Ogilvie and Ogilvie Consulting Associates to address the staff relocation considerations and accompanies this report.

- The length of the transition period and the extensive out-placement consultation and support processes identified in the Ogilvie report will ensure that the needs of the present Medicare staff are met during the transition.

- There will be no change in the public or practitioners' perception of Medicare due to the relocation. Control of the program will remain with the Department of Health and the new IBM computer system will retain the features of the present Univac system.

- The Province will have the benefit of the transition period for orderly replacement of the Medicare processing load on the Univac computer.

- The privatization and relocation of Medicare will increase the concentration of information processing and insurance business in Moncton to create a multiplier effect sparking further expansion of the information and insurance businesses and related jobs.

- The Economic Development Strategy for Greater Moncton is supported by the location in downtown Moncton of an expanded insurance industry base and technology center.

- Moncton will be in position to develop as an insurance centre as an alternative to Halifax.

SECTION ONE

BACKGROUND INFORMATION TO THIS REPORT

This report assumes that the reader is familiar with the development needs of the City of Moncton and the growth plans of Blue Cross of Atlantic Canada. Background information on these topics, prepared during the conceptual and consultation stages of this proposal, is provided in the following documents which are appendices to this report:

Appendix A - Blue Cross and Revitilization of Downtown Moncton - May, 1984

Appendix B - Business Plan - Blue Cross of Atlantic Canada - Sept. 14, 1984

Appendix C - Proposal to Transfer Medicare Administration to Blue Cross - Feb. 6, 1985

The plan for the transfer of Medicare is based on the following major premises which are detailed more fully in the appended documents:

Blue Cross Growth Potential

Blue Cross of Atlantic Canada has entrepreneurial growth plans underway which can ignite the latent potential for establishing an insurance industry growth center in Moncton. These plans include:

- The establishment of Blue Cross Life Insurance Company of Canada (effective July 1, 1985), a Federally Chartered Insurance Company with its head office and data processing facilities in Moncton, which will underwrite business across Canada through the well established marketing organizations of the other regional Blue Cross Plans in Canada.

- The establishment of a head office environment for Blue Cross Life Insurance Company of Canada, which is appropriate for a national company, and which has access to a local base of industry expertise and technology on which to build, and which will help to ensure the longevity of Moncton as the head office.

- The implementation of state of the art data processing, administration and management information systems to maintain the competitive advantage needed to achieve Blue Cross' regional and national growth potential.

- An early decision on future building plans because the present Blue Cross head office building is inadequate for current needs.

Moncton Redevelopment Needs

Moncton is pursuing a re-development strategy for its downtown core.

Medicare Provides the Critical Mass

Medicare processing provides enormous synergy for the development of these opportunities and additional jobs in the Moncton downtown.

Provincial Commitment

The Province supports the development plan concepts approved for Greater Moncton, which focus its future as an alternative head office site to Halifax, with particular identification of the insurance industry. As well, the province is examining ways to reduce its deficit and spur the economy of the province.

This combination of circumstances represents the rare and timely opportunity to implement a development strategy in which the whole is greater than the sum of the parts.

SECTION TWO

ECONOMIC DEVELOPMENT AND TECHNOLOGY GROWTH OPPORTUNITIES FOR THE PROVINCE OF NEW BRUNSWICK

This section summarizes the economic development and technology based growth opportunities which have been described in the Greater Moncton Economic Development Authority Report attached as Appendix C to this report.

An Insurance Center for the Atlantic Region Based in New Brunswick

- Insurance is a financial service industry in a growing sector of the economy.

- Financial and insurance expertise coupled with current information systems technology are the keys to future expansion of the insurance industry and the competitive success and growth of firms within the industry.

- Blue Cross of Atlantic Canada is growing fast in Moncton, its growth opportunities are expanding.

- Other insurers are firmly established in Moncton as an additional base for development.

- Medicare adds scope & depth to the Data Processing Center and base of information systems expertise available to support the insurance sector and the local business environment generally.

. The multiplier effect for the provincial economy of the high technology additions and the broadened insurance sector has great potential.

. The multiplier effect has already been demonstrated, as much of the Blue Cross' growth which has led to these opportunities has been due to the synergy of the administration requirements of the New Brunswick Prescription Drug Program with Blue Cross activities.

. As the location of the head office of Blue Cross Life Insurance Company of Canada, New Brunswick will be the base for extensive computer system development to serve the national market for life products, with plans to expand into providing additional data processing software and services to the seven other Blue Cross plans across the country.

. Moncton will become a viable alternative to Halifax where the financial industry will otherwise continue to congregate.

Specific Growth Opportunities for Downtown Moncton

. Blue Cross of Atlantic Canada and Medicare together will bring 400 jobs downtown.

. A major office tower will be constructed.

. A focal point to spur other development plans will be in place.

. Local businessmen and entrepreneurs will have the incentive to move them to action creating the snowball effect Moncton so badly needs

. Spin-off opportunities will result.

Technology Opportunities

. The merging of Medicare and Blue Cross Data Processing requirements will spur information system technology growth in New Brunswick.

. The combined Data Center and its supporting technical staff will create opportunities to serve and reinforce the Insurance Center participants in the region.

. The Data Processing Center will make available more extensive industry related technology than the individual components would have alone.

. There will be an opportunity to link with the regions' educational institutions to develop staff and explore technology, and provide expanded on-the-job training experience.

. The cadre of information system technologists and insurance industry specialists will serve as the base for other users of information system technology or insurance industry expertise to locate here.

Economic Benefits for the Province of New Brunswick

- Increased tax base.

- Greater Moncton's growth potential as a provincial population center and center of economic development significantly enhanced.

- The economic growth strategy for this region of the province would be reinforced.

- Federally Chartered Life Insurance Company based in New Brunswick to compete nationally in the financial sector.

- Opportunity to foster the science and technology growth scenario in New Brunswick.

- More systems and software development will be done here which can be used in this region or exported to other regions providing import substitution opportunities for the Province.

Summary

Privatization of a government service will energize existing and new entrepreneurial action to create private sector growth, increase the tax base, and contribute to the overall economic growth of the Province.

SECTION THREE

PLAN FOR THE PRIVATIZATION AND RELOCATION OF MEDICARE

This section outlines the business plan for effecting the relocation of Medicare to Moncton and describes the potential cost and administrative savings to the province which are in addition to the employment, industry, and development considerations.

The Plan - What Would be Transferred

The basic plan is to transfer all Medicare administrative and data processing functions currently carried out by the Department of Health and the Department of Supply & Services, to a new Blue Cross head office building and Data Center located in downtown Moncton. Included would be the registration function and claims processing and payment for all payment categories listed on page 5 of Appendix F. These include practitioner payments, both fee for service and non fee services, and the out of province hospital payments.

Under the plan, the Department of Health would contract for administration services to be provided by Blue Cross of Atlantic Canada. Medicare would retain its present identity without change, with the Province exercising full control of the program and Blue Cross of Atlantic Canada responding to policy direction from the Department of Health. The Department of Health would continue to define eligible benefits, eligibility requirements for beneficiaries and fee structures. Blue Cross of Atlantic Canada would administer the program, under the established policies and provide advice and assistance to the Department on the operation of the program. Blue Cross of

Atlantic Canada would also ensure ready on-line access to the Medicare data for management information, while maintaining full security and confidentiality, as is presently done for the equivalent data it manages for the Province under the New Brunswick Prescription Drug Program.

Quality of the Present System

A basic assumption of this plan is that the Medicare administration is presently working effectively using the Medicare 81 Univac based computer system and that the Province has achieved its improvement objectives identified in the studies of 1978-79.

The system conversion plans to IBM are based on converting Medicare 81 to operate on IBM equipment essentially as it does now on the Univac equipment, causing no disruption of administration to the practitioners, management, or the information users of the system. Changes would only be made where elements of the system are identified by the Department of Health as being unsatisfactory.

Timing of Transfer Flexible

Several options for the timing of the transfer of staff and facilities to Moncton were considered. Blue Cross is flexible with respect to the timing of the movement of staff to Moncton and assuming responsibility for administration. The suggested transfer plan provides for a 2 1/2 year transition period on the basis that this plan allows the minimum dislocation for all involved. Other transition scenarios were examined and the transfer to Moncton could occur at any earlier time that would meet the needs of the Province.

Transition Period

The suggested relocation plan provides for a transition period during which the Province of New Brunswick remains the employer. This period would allow approximately 2½ years during which the present Medicare employees would be facilitated to choose a personally satisfactory career path and during which the staff, which would ultimately move to Moncton, would be put in place in Fredericton.

The transition period would also provide ample time for the present computer system to be converted to IBM and for Blue Cross of Atlantic Canada to plan and build a new office building and data processing center in downtown Moncton.

Data Processing services during the transition period would continue to be provided by The Department of Supply & Services from the Univac computer system in Fredericton.

The entire Medicare staff, furniture and equipment would be relocated to Moncton at the end of the transition period to work in the downtown Blue Cross building using the existing Medicare system converted to run on Blue Cross IBM Data Center facilities.

Immediate Management Control

Immediately after the decision is made to transfer Medicare, a senior manager from Blue Cross would be appointed to manage Medicare. His principle responsibility would be to plan, organize and control the transfer process while working in concert with the Department of Health and the present staff to ensure continuation of the efficient operation of all Medicare functions.

Staffing

The present staff members will be fully supported to select a career choice which meets their individual needs. They are guaranteed the option to relocate to Moncton with Blue Cross of Atlantic Canada or may choose to transfer to other positions in the civil service in Fredericton. Blue Cross of Atlantic Canada is prepared to provide jobs and training to civil servants desiring to locate in Moncton from other government departments to ensure jobs are available in Fredericton for those Medicare employees who do not wish to come to Moncton.

A study has been commissioned by Blue Cross of Atlantic Canada to define the scope of the outplacement needs and to design the consultation process needed to fully support each individual staff member.

During the transition period, employees who would not be relocating would gradually be transferred to other jobs and new staff members would be placed by Blue Cross of Atlantic Canada to be trained and to work with existing staff members in Fredericton.

Computer System Conversion

The Univac based Medicare '81 software would be converted to IBM operation by Blue Cross of Atlantic Canada during the 2½ year transition period. This plan would minimize the cost and effort the Province would incur to convert Medicare to IBM operation, an event which is part of the long term computerization plan for the Province.

The 2½ year period will allow time for the orderly replacement of the Medicare processing load on the Univac computer with growth in existing applications or the development of new applications, as desired.

Timetable

A timetable has been assumed to provide for the efficient management of the transfer activities and has been used as the basis of the cost comparisons. The plan includes:

	Target Dates
Decision to relocate Medicare	April 1985
Appointment of Manager of Medicare	April 1985
Set up Consultation Process for employees	April 1985
Staff training and transition in Fredericton	April/85 - Oct/87
Conversion of the computer system to IBM operation	April/85 - Oct/87
Relocation of Medicare staff to Moncton	Oct. 1, 1987
Medicare fully operational on Blue Cross IBM system in Moncton	Oct. 1, 1987

Cost Guarantees - Blue Cross Takes the Risk

Blue Cross of Atlantic Canada is suggesting that the Province enter a 10 year contract with Blue Cross under which Blue Cross will guarantee to administer the program at a fixed percentage of benefit payments (The percentage would be subject to adjustment if the mix or structure of the Benefits is changed). Blue Cross of Atlantic Canada will also guarantee that the computer system can be converted at a fixed cost to the province. Under this arrangement, Blue Cross of Atlantic Canada takes the risk. If this arrangement is not preferred, Blue Cross of Atlantic Canada would also be prepared to administer the program on a no profit/no loss basis as it currently does for the New Brunswick Prescription Drug Program.

Administration Cost Information

Medicare payments and operating costs under Department of Health administration have been projected to April, 1998, using an annual inflation rate of 4% (Schedule 1).

The costs projected for Blue Cross administration (Schedule 2) for fiscal years 1985/1986 and 1986/1987 are based on government remaining the employer and operating on the Government's Univac computer. Fiscal year 1987/1988 reflects the October 1, 1987 conversion to IBM operation and the staff relocation to Moncton. The subsequent years are based on operation on Blue Cross of Atlantic Canada's IBM computer center in Moncton.

The present Medicare costs are based on the information provided to Blue Cross of Atlantic Canada by the Director of Administration (copy attached as Appendix F). Costs not departmentalized which must be included in the administrative cost comparisons are identified on Schedule 3.

Cost Savings with Blue Cross of Atlantic Canada Administration

The Projected Administration Cost Savings (Schedule 4) compares the projected annual expense under Department of Health administration for the years from Oct. 1, 1987 to March 31, 1998, with the guaranteed administration charge of 3% of payments which is proposed by Blue Cross of Atlantic Canada.

With the administration charge guaranteed at 3% of payments, the Government of New Brunswick would save $11.2 million in administration expenses over the first 10½ years of the contract.

This represents an annual saving in excess of $1 million. Blue Cross of Atlantic Canada will also guarantee that the cost to the Province to convert the computer system to IBM will not exceed $1.1 million. Based on the annual saving the cost of the computer system conversion will be recovered by the Province in one year.

As an alternative if so desired by the Province, Blue Cross would guarantee to absorb the full cost of computer system conversion in which case the annual administration cost would be 3.09% of payments for the term of the contract.

Blue Cross of Atlantic Canada presently provides substantial savings to the Government of New Brunswick by administering the New Brunswick Prescription Drug Program for 2.10% of payments to pharmacies after adjusting for the co-payment and the cost of issuing co-payment reimbursement cheques to beneficiaries (Schedule 5). (Note that the figures on Schedule 5 are adjusted for the co-payment to provide an equivalent administration cost comparison with the Medicare payments.) We are confident that we can provide similar savings to the Province and administer Medicare for 3% of payments, guaranteed for the life of the contract.

Benefits for the Province

This plan provides major benefits for the Province:

- Administration cost savings in excess of $1 million annually
- Timely conversion to IBM operation with minimum disruption to the Univac computer center
- Guaranteed administration and system conversion costs with no risk of cost overruns

NEW BRUNSWICK MEDICARE
PRO FORMA STATEMENT of PAYMENTS AND ADMINISTRATION EXPENSES
(Under Department of Health Administration)
For The Fiscal Years Ending March 31,1985 to March 31,1998

SCHEDULE 1

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
Payments:														
Medicare	$109,287,300	$113,658,792	$118,205,144	$122,933,350	$127,850,684	$132,964,711	$138,283,299	$143,814,631	$149,567,216	$155,549,905	$161,771,901	$168,242,777	$174,972,488	$181,971,388
Out of province Hospital	31,890,900	33,166,536	34,493,197	35,872,925	37,307,842	38,800,156	40,352,162	41,966,248	43,644,898	45,390,694	47,206,322	49,094,575	51,058,358	53,100,692
	$141,178,200	$146,825,328	$152,698,341	$158,806,275	$165,158,526	$171,764,867	$178,635,461	$185,780,879	$193,212,114	$200,940,599	$208,978,223	$217,337,352	$226,030,846	$235,072,080
Administration Expenses:														
Salaries	1,557,807	1,620,119	1,684,924	1,752,321	1,822,414	1,895,311	1,971,123	2,049,968	2,131,967	2,217,246	2,305,936	2,398,173	2,494,100	2,593,864
Employee benefits	58,593	60,937	63,374	65,909	68,545	71,287	74,138	77,104	80,188	83,396	86,732	90,201	93,809	97,561
Freight, express and cartage	5,250	5,460	5,678	5,905	6,141	6,387	6,642	6,908	7,184	7,471	7,770	8,081	8,404	8,740
Equipment service contracts	19,740	20,530	21,351	22,205	23,093	24,017	24,978	25,977	27,016	28,097	29,221	30,390	31,606	32,870
Postage	121,000	125,840	130,874	136,109	141,553	147,215	153,104	159,228	165,597	172,221	179,110	186,274	193,725	201,474
Legal	200,000	208,000	216,320	224,973	233,972	243,331	253,064	263,187	273,714	284,663	296,050	307,892	320,208	333,016
Printing and copying	24,150	25,116	26,121	27,166	28,253	29,383	30,558	31,780	33,051	34,373	35,748	37,178	38,665	40,212
Telephone	33,464	34,803	36,195	37,643	39,149	40,715	42,344	44,038	45,800	47,632	49,537	51,518	53,579	55,722
Travel	14,700	15,288	15,900	16,536	17,197	17,885	18,600	19,344	20,118	20,923	21,760	22,630	23,535	24,476
Office supplies	5,250	5,460	5,678	5,905	6,141	6,387	6,642	6,908	7,184	7,471	7,770	8,081	8,404	8,740
Forms	128,550	133,692	139,040	144,602	150,386	156,401	162,657	169,163	175,930	182,967	190,286	197,897	205,813	214,046
Office furniture and equipment	5,400	5,616	5,841	6,075	6,318	6,571	6,834	7,107	7,391	7,687	7,994	8,314	8,647	8,993
Data processing cost	2,216,000	2,304,640	2,396,826	2,492,699	2,592,407	2,696,103	2,803,947	2,916,105	3,032,749	3,154,059	3,280,221	3,411,430	3,547,887	3,689,802
Expenses not departmentalized - Schedule 3	602,425	626,322	651,583	677,646	704,752	732,942	762,260	792,750	824,460	857,438	891,736	927,405	964,501	1,003,081
	$4,992,329	$5,192,023	$5,399,705	$5,615,694	$5,840,321	$6,073,935	$6,316,891	$6,569,567	$6,832,349	$7,105,644	$7,389,871	$7,685,464	$7,992,883	$8,312,597
Administration expenses as a % of Payments	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%	3.54%

NEW BRUNSWICK MEDICARE
PRO FORMA STATEMENT of PAYMENTS AND ADMINISTRATION EXPENSES
(Under Blue Cross Administration)
For The Fiscal Years Ending March 31,1986 to March 31,1998

	1985/86	1986/87	1987/88 (APR - SEP)	1987/88 (OCT - MAR)	1988/89	1989/90
Payments:						
Medicare	$113,658,792	$118,205,144	$61,466,675	$61,466,675	$127,850,684	$132,964,711
Out of province Hospital	33,166,536	34,493,197	17,936,462	17,936,462	37,307,842	38,800,156
	$146,825,328	$152,698,341	$79,403,137	$79,403,137	$165,158,526	$171,764,867
Administration Expenses:						
Salaries	1,620,119	1,684,924	876,160			
Employee benefits	60,937	63,374	32,954			
Freight, express and cartage	5,460	5,678	2,953			
Equipment service contracts	20,530	21,351	11,103			
Postage	125,840	130,874	68,054			
Legal	208,000	216,320	112,486			
Printing and copying	25,116	26,121	13,583			
Telephone	34,803	36,195	18,821	3%	3%	3%
Travel	15,288	15,900	8,268	GUARANTEED	GUARANTEED	GUARANTEED
Office supplies	5,460	5,678	2,953			
Rent	133,692	139,040	72,301			
Office furniture and equipment	5,616	5,841	3,037			
Data processing cost	2,304,640	2,396,826	1,246,350			
Expenses not departmentalized Schedule 3	626,522	651,583	338,823			
Administration charges						
Bank charges						
Rent						
Medical Director						
Line charges						
	$5,192,023	$5,399,705	$2,807,846	$2,382,094	$4,954,756	$5,152,946
Administration expenses as a % of Payments	3.54%	3.54%	3.54%	3.00%	3.00%	3.00%

SCHEDULE 2

1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98
$138,283,299	$143,814,631	$149,567,216	$155,549,905	$161,771,901	$168,242,777	$174,972,488	$181,971,388
40,352,162	41,966,248	43,644,898	45,390,694	47,206,322	49,094,575	51,058,358	53,100,692
$178,635,461	$185,780,879	$193,212,114	$200,940,599	$208,978,223	$217,337,352	$226,030,846	$235,072,080
3% GUARANTEED	3% GUARANTEED	3% GUARANTEED	3% GUARANTEED	3% GUARANTEED	3% GUARANTEED	3% GUARANTEED	3% GUARANTEED
$5,359,064	$5,573,426	$5,796,363	$6,028,218	$6,269,347	$6,520,121	$6,780,925	$7,052,162
3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

SCHEDULE 3

New Brunswick Medicare
Government Expenses Not Departmentalized

	1984/85
Administration charges - Appendix 1	$100,000
Bank charges - Appendix 2	12,800
Employee benefits - Appendix 3	124,625
Rental - office space - Appendix 4	240,000
Medical Director's office - Appendix 5	125,000
	$602,425

	1985/86
Administration charges	$104,000
Bank charges	13,312
Employee benefits	129,610
Rental - office space	249,600
Medical Director's office	130,000
	$626,522

	1986/87
Administration charges	$108,160
Bank charges	13,844
Employee benefits	134,794
Rental - office space	259,584
Medical Director's office	135,200
	$651,583

Appendix 1
to Schedule 3

New Brunswick Medicare Administration Charges

Several support areas within the Government of New Brunswick are not charged back to the Department of Health. It was found impossible to calculate these costs for Medicare but we estimate that the cost would be in excess of $100,000 per year. This estimate covers the following unallocated costs.

(i) Comptroller's Office

(ii) Purchasing and payroll administration

(iii) Medicare share of Data Processing Division overhead expenses, e.g. rent, employee benefits, support services, etc.

	1984/85
Estimated Cost	$100,000

Appendix 2
to Schedule 3

New Brunswick Medicare
Bank Charges

	1984/85
64,000 cheques per year @ .20 each	$12,800

Appendix 3
to Schedule 3

New Brunswick Medicare
Employee Benefits

The following employee benefits are estimated to cost the government 8% of payroll:

(i) Pension

(ii) Canada Pension Plan

(iii) Group Life Insurance

	1984/85
Estimated cost - 8% of payroll	$124,625

Appendix 4
to Schedule 3

New Brunswick Medicare
Rental Expense

	1984/85
12,000 square feet @ $20.00	$240,000

Appendix 5
to Schedule 3

New Brunswick Medicare
Medical Director's Office

Approximately 50% of the Medical Director's Office is dedicated to the Medicare Program.

	1984/85
Estimated cost - 50% of $250,000	$125,000

SCHEDULE 4

New Brunswick Medicare
Projected administration Cost Savings
For A Period of Ten Years

	Present Projected Adm Expenses	3% of Payments Guaranteed	Cost Savings
	Dept. of Health	Blue Cross	
First Year - 1/2 of 1987/88	$2,807,847	$2,382,094	$425,753
Second Year	5,840,321	4,954,756	885,565
Third Year	6,073,935	5,152,946	920,989
Fourth Year	6,316,891	5,359,064	957,827
Fifth Year	6,569,567	5,573,426	996,141
Sixth Year	6,832,349	5,796,363	1,035,986
Seventh Year	7,105,644	6,028,218	1,077,426
Eighth Year	7,389,871	6,269,347	1,120,524
Nineth Year	7,685,464	6,520,121	1,165,343
Tenth Year	7,992,883	6,780,925	1,211,958
Eleventh Year	8,312,597	7,052,162	1,260,435
	$72,927,369	$61,869,422	$11,057,947

SCHEDULE 5

New Brunswick Prescription Drug Program
Projected Budget Fiscal Year 1985/86

Claims Budget

Claims Budget (including Co Pay Savings)	$32,570,311
Add: Co Payment Savings	1,612,000
Claims Budget (excluding PDP Co Payment)	$34,182,311

Administration Budget

	Admin Cost Including Co Payment	Admin Cost Excluding Co Payment
Audit	$1,500	$1,500
Bank Charges	24,427	1,327
Computer Services	146,653	137,853
Data Center Services	8,307	8,307
Data Entry	98,878	98,878
Equipment Leasing	9,256	9,256
Miscellaneous	598	598
Office Supplies	7,930	7,930
Postage & Freight	51,025	15,825
Printed Forms	37,635	28,835
Admin Salaries	339,859	322,259
Systems & Programming	73,619	73,619
Tab Paper	1,651	1,651
Telephone	5,486	5,486
Travel	4,797	4,797
Total	$811,621	$718,121
Admin Cost % of Claims	2.49%	2.10%

SECTION FOUR

FACILITATING THE RELOCATION PROCESS

The relocation plan is designed to be flexible so that the Department of Health can address its major concerns. This section of the report focuses on the ways in which the Department can assure itself that:

- The present Medicare staff is protected
  - A consultant's study accompanies this report to address this very serious issue in full. Blue Cross is committed to take every step necessary to ensure that the transfer process is carried out with sensitivity to the needs of the existing employees.

- The transfer is planned so that the training of replacement staff creates opportunities for enhancement of rather than a drop in service levels
  - The consultant has highlighted the importance of this facet of the transition in his report and has identified support processes available to assist in the retraining

- The cost and effort of the conversion from Univac to IBM is fully handled by Blue Cross of Atlantic Canada and is transparent to the Department of Health
  - This is a cost which we understand would ultimately be incurred under the Province's data processing strategy. Our proposal will allow the Province to minimize the cost and disruption of this major conversion effort and focus its scarce technical staff, whether Univac or IBM, on its future information needs.

. The benefits of the present computer system are retained

- Our plan recognizes the effectiveness of the Medicare 81 system and proposes no changes to the existing system through the conversion process unless needed changes are identified by the Department of Health.

. The excellent relationship of the Department with physicians is maintained

- As noted above, no changes are planned in the system and the responsibility for control of the program and negotiation of fees will remain with the Department of Health.

. The Univac computer continues to be effectively used until replacement

- The transition period will provide an opportunity to time the reductions in load on the Univac computer to meet the objectives of the Province's data processing strategy. Blue Cross is flexible with respect to the Province's desired timing of system conversion.

APPENDICES

BLUE CROSS AND REVITILIZATION OF DOWNTOWN MONCTON

INTRODUCTION

A fortuitous combination of circumstances presents a significant opportunity for support to the development of downtown Moncton and for firmly establishing the Head Office of a National Business in New Brunswick, which will bring growth in employment, build on its technological leadership and sow the seed for development of Moncton as an insurance center.

BLUE CROSS PROVIDES A BASE FOR DEVELOPMENT

Blue Cross of Atlantic Canada

Blue Cross of Atlantic Canada is a Moncton based firm, controlled by Atlantic Canadians, which is the leader in the Atlantic Provinces in the provision of health care coverages for employees and individuals. Blue Cross also provides extensive health claim administrative services to the Province of New Brunswick, Province of Newfoundland and the Federal Department of Veterans Affairs.

An affiliated company, Atlantic Mutual Life Assurance Company, provides life insurance benefits to complement the health benefits offered to Atlantic Canadians. Blue Cross and Atlantic Mutual Life have highly successful administrative and data processing expertise as the base of their success and strong growth in a very competitive marketplace otherwise dominated by large national life insurance companies.

Blue Cross Life Insurance Company of Canada

Building on our expertise and capabilities, other Blue Cross Plans in Canada have joined with Blue Cross of Atlantic Canada to establish Blue Cross Life Insurance Company of Canada as a national life insurance company. In October 1984, Atlantic Mutual Life Assurance Company, which has a Federal Charter, will have its name changed to Blue Cross Life Insurance Company of Canada, and Alberta Blue Cross, Ontario Blue Cross and Manitoba Blue Cross will invest over $3.5M in the company by purchasing capital stock. Because the Blue Cross Plans in Canada have a major share of the Canadian Health & Dental market, Blue Cross Life Insurance Company of Canada has access to a substantial base for potential growth.

The Head Office of Blue Cross Life Insurance Company of Canada will be at the location of the Head Office of Blue Cross of Atlantic Canada as we offer the insurance and data processing capabilities which the company requires.

To firmly entrench the Blue Cross Life Insurance Company of Canada in Moncton, since our partners are more centrally located or have territories with larger market potential, we must continue to build the expertise which has allowed us to establish national leadership in this endeavour.

Office Facilities

Based on our current staff and our growth potential, Blue Cross of Atlantic Canada currently needs to take action to expand its space and facilities. Although we own a building and property with excellent potential for

expansion, the advantages of housing Blue Cross Life in a major office building located in a downtown complex with a concentration of insurance and data processing elements, and a dynamic supporting business community, give rise to the proposals outlined in this paper.

INSURANCE CENTER

Combining the foregoing opportunities, created by Blue Cross of Atlantic Canada initiatives, with the current circumstances in Moncton and New Brunswick, it becomes apparent that some consolidation of insurance industry strength in downtown Moncton is possible. With Assumption Mutual Life, the Co-operators Regional Office, Wawanesa Insurance Regional Office, Blue Cross of Atlantic Canada, and Blue Cross Life Insurance Company of Canada, a concentration of expertise unequalled in the region is possible. Overtures have already been made to identify areas where sharing of technical expertise and facilities can be developed.

MEDICARE

Medicare is the government financial health insurance program for the residents of New Brunswick which requires the same administrative know-how and data processing technology as the health and life insurance industry.

We propose that Medicare should become part of the insurance community of Moncton. A commitment by Government to transfer Medicare would provide a stronger base with more to offer initially than Blue Cross alone.

With the merger of the Blue Cross and Medicare administration and the head office for the national life insurance company, Blue Cross Life Insurance Company of Canada in Moncton, we would create an industry in excess of $200M annually for Moncton employing 400 people from its very

beginning, with unlimited growth potential in the area of life insurance, financial services and computer technology.

New Brunswick needs to create industries providing financial services on a regional and national basis which are large users of data processing technology. These kinds of industries do not usually fluctuate with the economy and, therefore, would provide steady employment for residents of the province of New Brunswick.

DATA PROCESSING TECHNOLOGY

Blue Cross of Atlantic Canada has developed and is developing online information systems and processing capabilities which are state-of-the-art in the insurance industry. These capabilities are vital to the maintenance of its position in Blue Cross Life Insurance Company of Canada. Claims processing systems, financial systems, and life insurance data bases, must be in place to deliver top notch customer service anywhere in Canada. Ultimately, systems and software must be developed here for use in other parts of Canada and potentially for sale to other companies.

There is an opportunity here to develop new technologies which can serve the local companies and which can create employment and develop technological skills here in New Brunswick and use the resources and facilities of our Universities and Community Colleges.

THE PLAN

Blue Cross of Atlantic Canada, being a corporate citizen of New Brunswick and the City of Moncton, supports the revitalization of downtown Moncton and is prepared to become part of the plan to make downtown Moncton

a business center for insurance using the latest in computer technology. Our plan is as follows:

1. Blue Cross of Atlantic Canada move its present operations to downtown Moncton.

2. The Head Office of the national life company, Blue Cross Life Insurance Company of Canada, would be moved to downtown Moncton.

3. The Government of New Brunswick would transfer the administration of Medicare to Moncton.

4. The creation of a data processing center in downtown Moncton using the latest computer technology to support Blue Cross of Atlantic Canada regional business, Blue Cross Life Insurance Company of Canada national business, other Canadian Blue Cross Plans national health business, Medicare and other regional businesses who are obtaining their services outside of the province.

5. Build or lease a 60,000 square foot office complex with a further 20,000 square feet to be available within 3 to 5 years in downtown Moncton. This complex must be part of the development plan of the downtown area and have a high profile in the business district.

6. The Government of New Brunswick purchase our present facilities at 110 MacBeath Avenue at fair market value.

TRANSFER OF MEDICARE

The administration of Medicare should be transferred to Blue Cross of Atlantic Canada in Moncton. Blue Cross of Atlantic Canada would use their own employees and data center for the registration, processing of claims, statistical data and management information and reports. The transfer of Medicare to Moncton would not take place for 1½ to 2 years and the existing employees could be absorbed within the provincial civil service in Fredericton. The computer systems would need to be converted from Univac to IBM but this can be done during the 1½ to 2 year period. This would free up scarce computer resources in Fredericton which could be made available for other tasks more vital to the service of the Government and citizens of New Brunswick.

Policy decisions, directives, provider negotiations, etc. would remain within the Department of Health in Fredericton and Blue Cross would carry out the policies and directives of the Department of Health.

Medicare would operate with its own data base which would be completely separate from all other computer systems. Also, Blue Cross would guarantee the strictest confidentiality of the data and its use at all times.

We would be prepared to submit a detailed plan and budget on how Medicare can be transferred to Blue Cross administration but this should only be done after the Government has reviewed the economic issues for the Province and the City of Moncton.

Also, Blue Cross would be prepared to work with developers to put together a business plan for the relocation from MacBeath Avenue to downtown Moncton, once we have received assurance from the Province of New Brunswick that they are seriously considering the transfer of Medicare to Moncton.

WHY IS MEDICARE VITAL TO THIS PLAN

The addition of Medicare is necessary to provide a starting base with sufficient scope to support the development of the insurance and data

processing opportunities in Moncton and to justify a Blue Cross of Atlantic Canada relocation plan:

1. Blue Cross of Atlantic Canada cannot economically plan to relocate from its present premises without the confidence that a downtown location will meet its business objectives.

2. Blue Cross of Atlantic Canada has concluded that Blue Cross alone is not a sufficient base to provide the spark to the development of the downtown.

3. Medicare is an entity which has synergy with the development opportunities now present in Moncton.

4. Medicare, along with Blue Cross, will add the employment and the Government commitment needed to create enthusiasm and participation by other developers and entrepreneurs.

5. Medicare also contributes a commitment by Government around which the insurance center can coalesce. Blue Cross of Atlantic Canada, Blue Cross Life Insurance Company of Canada, and the Province of New Brunswick, are a stronger base with more to offer to initiate an insurance industry and technology activity center than Blue Cross alone.

6. The addition of Medicare's data processing requirements move the proposed data center operation from intermediate system to large system, reinforcing the use of the latest technology and more extensive facilities than Medicare or Blue Cross would require alone. This will ensure that Moncton has a center for data technology, not just another data center. This would enable the data center because of its size to do research and development in this field.

7. The additional staff and facilities will make the building, large enough to provide the quality of Head Office site which will meet the Blue Cross objective of maintaining the permanence of the Head Office of Blue Cross Life Insurance Company of Canada in New Brunswick.

8. The combined effect should support the development potential for downtown Moncton and spark initiatives in the insurance field, and in data processing software, with business and educational institution participation in these developments.

SUMMARY OF CONSIDERATIONS

Medicare activates the other elements of the development scenario. Without Medicare, the other elements will not be realized. Blue Cross will stay in its existing premises; the insurance center and base of technological growth will remain as scattered elements with no unifying core. Downtown Moncton must find another source of 400 persons to locate there.

Without these initiatives, there is considerable likelihood that, ultimately, Halifax or Toronto will offer advantages which will attract some or all of the entities from Moncton.

Schedule I

BLUE CROSS OF ATLANTIC CANADA

MAJOR GROUP POLICYHOLDERS BY PROVINCE

New Brunswick Group Policyholders

New Brunswick Government Employees (includes Hospitals and School Boards)
New Brunswick Electric Power Corporation (Dental)
New Brunswick Telephone Company Limited
City of Fredericton
City of Saint John
City of Moncton
McCain Foods Limited
Day & Ross Inc.
St. Thomas University
University of Moncton
Mount Allison University
Frasers Inc.
Brunswick Mining & Smelting Limited
Boise Cascade Canada
Co-Op Atlantic
Consolidated Bathurst
New Brunswick Liquor Corporation
New Brunswick International Paper
Irving Oil Limited
J. D. Irving Limited
Irving Pulp & Paper Company Limited
Atlantic Sugar Limited
Moosehead Breweries Limited
Potash Company of America
Enheat Inc.
Baxter Dairies Limited
Rothesay Pulp & Paper Ltd.
T. S. Simms & Company Limited
New Brunswick Publishing Co. Ltd.
Centracare Saint John
Atlantic Wholesalers Limited
Sumner Company Limited
Canadian Broadcasting Corporation
New Brunswick Pharmacists Association
N. B. Coal Ltd.
New Brunswick Teachers' Federation

Nova Scotia Group Policyholders

Nova Scotia Power Corporation
Central Trust Company
National Sea Products
Dalhousie University
City of Halifax
Nvoa Scotia Forest Industries Ltd.
Atomic Energy of Canada
St. Mary's University
Dartmouth General Hospital
Camp Hill Hospital
Isaak Walton Killiam Hospital
Grace Maternity Hospital
Halifax Infirmary
Municipality of The County of Halifax
County of Halifax School Board
Halifax - Herald Ltd.
Department of National Defence
Technical University of Nova Scotia
Atlantic Provinces Trucking Association
Hostess Food Products Ltd.
St. Francis Xavier University
Canso Seafoods
Scott Maritime Limited

Prince Edward Island Group Policyholders

P.E.I. Government Employees
P.E.I. Regional School Boards
University of Prince Edward Island
Queen Elizabeth Hospital
Holland College
Prince County Hospital
Town of Summerside
Island Fertilizer Ltd.
R. T. Holman Ltd.,
P.E.I. Retired Teachers
Georgetown Shipyards
Amalgamated Dairies Ltd.
Confederation Centre
Maritime Electric Company
Perfection Foods Ltd.

Schedule II

1982

Total Canadian Health and Dental Market

Region	BC H & D	Other H & D	Total H & D	Blue Cross % of Total
Atlantic	$ 40M	$ 63M	$ 103M	39%
Quebec	42M	165M	207M	20%
Ontario	159M	552M	711M	22%
Manitoba	22M	21M	43M	51%
Saskatchewan	4M	14M	18M	22%
Alberta	38M	100M	138M	28%
British Columbia	73M	96M	169M	43%
Other	____	12M	12M	
Total	$378M	$1,023M	$1,401M	27%

Newfoundland Group Policyholders

Newfoundland Telephone Company Limited
Newfoundland Light and Power
Newfoundland Hydro Group of Companies
Fishery Products Limited
Canadian Broadcasting Corporation (Nfld.)
Bowaters Newfoundland Limited
Newfoundland and Labrador Housing Corporation
General Hospital Cornerbrook
St. Clare's Mercy Hospital
Children's Hospital
Eastern Provincial Airways Limited
Bowring Brothers
T. J. Hardy Co. Ltd.
K-Mart Stores
Woolco Department Stores
Henry Birks & Son
Crosbie's Wholesale Co.
Newfoundland Pharmacy Association
Husky Oil Operations Ltd.

APPENDIX "B"

14 September 1984

BUSINESS PLAN

BLUE CROSS OF ATLANTIC CANADA

PURPOSE

The purpose of this paper is to outline the business plans of Blue Cross of Atlantic Canada and to highlight the cumulative benefits for Blue Cross, New Brunswick Medicare, the City of Moncton and the Province of New Brunswick, which are presented by the growth plans of Blue Cross, the development needs of downtown Moncton, and the New Brunswick Government's policy on the privatization of services.

This plan demonstrates that the opportunity for privatization of Medicare administration in Moncton provides significant advantages which have the potential to contribute greatly to the future economic health of the City of Moncton and the Province of New Brunswick.

OBJECTIVES OF BLUE CROSS

The following summarizes the development plans currently underway at Blue Cross of Atlantic Canada emphasizing the plans and objectives which contribute to positioning our organization for future expansion. The principle objectives derived from our corporate plans which are impacted by Medicare are:

1) To firmly establish and build a nationally recognized Employee Benefit/Insurance/Financial institution, Blue Cross Life Insurance Company of Canada, based in Atlantic Canada.

2) To build Blue Cross Life on the base provided by Blue Cross of Atlantic Canada and the other regional Blue Cross Plans in Canada.

3) To position our organization for growth by
   - ensuring ready access to insurance industry expertise
   - establishing computerized information facilities (hardware, software, data communications and expert personnel) of the quality and scope necessary to have competitive advantages in our target market
   - developing the necessary research and development capability to exploit our insurance and information system expertise
   - working closely with Governments to administer programs which add synergy and resources to our base for growth.

4) To meet our existing and future growth needs by replacing our present building with physical premises, surrounding environment, and supporting business community befitting the head office of a high profile National organization.

5) To remain headquartered in Atlantic Canada preferably in Moncton.

6) To contribute to the development of Moncton as the type of environment which we need to meet our objectives.

HOW DOES MEDICARE IMPACT THESE OBJECTIVES

Establishment of Blue Cross Life Insurance Company of Canada

Blue Cross Life Insurance Company of Canada is now established with head office in Moncton and is due to commence business January 1, 1985. Our objective now is to expand and entrench the capabilities which make Moncton the National Head Office and which will make us as successful in the national marketplace as we have been in regional markets. Medicare adds needed resources and synergy to support this overall objective.

Blue Cross Life positions us to transform the limited regional potential of Atlantic Mutual Life Assurance Company to one which has a Canada wide marketing structure and can expand into selected life products or markets, and ultimately become a major national competitor in all present insurance company lines or in the future, all-encompassing financial services into which the industry is seeking to move.

It will also contribute to increased growth for Blue Cross of Atlantic Canada's health lines by expanding our market to include large national corporations or agencies which are currently centrally underwritten and controlled outside of Atlantic Canada.

Insurance Industry Centered in Moncton

Medicare significantly enhances the opportunity to develop Moncton as an insurance center. By adding its computer power, application software and expertise to that of Blue Cross a base is established, to which other regional companies can link. Both Government programs and the private sector can then contribute to and share in the benefits.

From a Blue Cross point of view, its exposure to the insurance industry through Atlantic Mutual Life Assurance Company has assisted Blue Cross of Atlantic Canada to keep up to date and to change to meet evolving social and market conditions. This has occured through contact with the Superintendents of Insurance, other insurance firms (based mainly in Toronto) and industry associations.

Our objective is to position ourselves and this area to develop a base of insurance industry knowledge, expertise and facilities, centered in Moncton which continues the beneficial interchange and develops its own capabilities with respect to underwriting, product design, financial services, investment management, data processing and other industry functions.

Computer Based Technology

Our objective is to continue to position our organization to create competitive advantages and growth and diversification of our products and

services by having available the necessary computer facilities and expertise. Sharing these facilities with Medicare allows both organizations to increase their access to state-of-the-art or large scale hardware, software and communication facilities, and to economically support the research and development of new software or technology based products. It will cost each participant less to do more.

We will also be positioned to exploit the opportunities presented by our investment in computer technology to develop and market computer software and services to other companies and governments.

Research and Development

With Medicare, the opportunities to develop the insurance center and computer center are immediately viable. This will significantly enhance our ability to involve other insurance companies and the universities and community colleges.

Synergy of Government Programs

For Blue Cross, the addition of Government Programs administration to our private programs has produced an additional synergy which has enhanced our position in the marketplace.

The impact of adding the New Brunswick Prescription Drug Program administration has led directly to design of industry leading drug program administration systems for both Blue Cross of Atlantic Canada and the Province of New Brunswick, enabled us to continue our position of leadership in the

private drug program market and attracted additional government business to Moncton from Newfoundland and the Federal Government.

Medicare offers greatly expanded opportunities of the same type for improved systems for government and Blue Cross, attracting business from other provincial governments to Moncton, enhanced products and growth potential for Blue Cross of Atlantic Canada and Blue Cross Life, and technology related spin-off computer services.

Physical Premises

Medicare will provide the additional staff and demand for physical facilities which will support a move to new premises in downtown Moncton. Our objectives for the location and quality of the Blue Cross Life Insurance Company of Canada head office will be supported in every respect and, in turn, the support needed for the economic revitalization of downtown Moncton will be possible.

Our present premises will then be available for private sale or for use by the Government in conjunction with the space needs of the Moncton Hospital or for other uses. We must be assured of the disposition of our existing property on MacBeath Avenue in order to relocate to downtown Moncton.

Our plan calls for the construction of 100,000 square feet of quality office space housing over 400 staff members in facilities which are an integral part of the Downtown Moncton Development Plan.

Impact on Medicare

The Government has the opportunity to provide and be credited for the leadership needed to develop downtown Moncton, while achieving the developmental and financial benefits of its policy of encouraging private agencies to administer suitable services presently operated by the Government.

Medicare will benefit from the increased availability of technology and expertise and management exposure to the skills and techniques of related industries.

Impact on Moncton

Moncton needs properly motivated participants in its downtown. Blue Cross and Medicare will be excellent, non-retail based, stable organizations which will meet this need and spark others to action.

Financial Impact

The combined Blue Cross operations and the administrative services for Medicare would provide the Province of New Brunswick and the City of Moncton with a major financial institution. The organization would have revenue of approximately $350 Million by 1988 and assets of approximately $85 Million, employing in excess of 400 people in downtown Moncton.

The attached Schedule I, which includes Medicare commencing January 1, 1988, outlines the projected growth of revenues and assets for the next five years of operation from its five main lines of business.

Health and Dental Programs

Life Insurance

Administered Programs

Computer Services

Investment Income

Blue Cross has grown from an organization with $10 Million of revenue and $16 Million of assets in 1973 to $97 Million of revenue and $38 Million of assets by 1983. The next five years of growth with the addition of the Medicare administration and the development of Blue Cross Life Insurance Company of Canada will give Blue Cross the size to achieve its business objectives as outlined above. It is imperative for a financial institution like Blue Cross to grow in size enabling it to invest in research, computer systems and hardware, product development and people. An organization with revenue of $350 Million and assets of $85 Million can afford to meet these objectives and diversify into new lines of business to provide financial protection for the citizens of New Brunswick, the Atlantic region and Canada as a whole.

Without Administration of Medicare

Blue Cross's business plan and corporate objectives would change considerably as follows:

- We would not be able to invest sufficient funds in research, computer systems and hardware, product development and people.
- We would not be able to participate in the downtown redevelopment plans.
- We would be less able to provide Blue Cross Life with the type of Head Office befitting a national life company.
- Pressure would be brought to decentralize in Halifax, Saint John's or other major centres in Atlantic Canada.
- We would stay in our present premises on MacBeath Avenue.
- Head Office for Blue Cross Life would ultimately be in Toronto or some other major centre.
- The insurance centre concept for downtown Moncton would be lost forever.
- An opportunity for the government of New Brunswick to privatize a government service with very little risk and cost would be lost.
- Blue Cross would remain a very small financial institution competing on a regional basis with the giants of our industry.

APPENDIX "F"

DEPARTMENT OF HEALTH
P.O. BOX 6000
FREDERICTON, N.B., CANADA
E3B 5H1

NEW BRUNSWICK
NOUVEAU-BRUNSWICK

MINISTÈRE DE LA SANTÉ
C.P. 6000
FREDERICTON, N.-B., CANADA
E3B 5H1

January 4, 1985

Mr. John Tarrel
Suite 810, Carleton Place
110 Carleton Street
Fredericton, New Brunswick
E3B 6G3

Dear Mr. Tarrel:

Mrs. Morris has asked me to respond to your letter of December 18, 1984 requesting information regarding the Medicare program.

I believe we have included all the information you have requested with the exception of question 3. This will follow shortly.

If you require further information please let me know.

Yours truly,

R. W. Gamble
Executive Director
Administration

cc: Mrs. C. Morris

CONCLUSION

Blue Cross of Atlantic Canada has already taken the initiative to establish the spark for expansion of insurance based technology in Moncton. Medicare can add the necessary depth to assure that the potential for the economic expansion which is being created is realized. An organization with annual revenue of $350,000,000, will have the scope and stability Moncton needs to grow with.

The proposal to privatize Medicare in Moncton offers significant advantages today with the outlook for increasing gains for the future for Blue Cross, Medicare, the City of Moncton and the Province of New Brunswick.

MEDICARE
PLAN OF ESTABLISHMENT

MEDICARE	1984-85
Director - Senior Management Level I	1
Executive Officer IV	2
Executive Officer III	1
Health Claims Supervisor	1
Executive Officer I	4
Research & Planning Officer IV	1
Field Representative	1
Computer Program Analyst III	1
Administrative Services Officer II	2
Administrative Services OfficerI	12
Clerical Officer III	15
Clerical Officer II	24
Clerical Officer I	3
Clerk Steno III]	6
Clerk Typist III]	
Clerk Typist II	2
	76

MEDICAL DIRECTOR'S OFFICE	
Medical Director Medical Officer - Admin. III	1
Medical Officer - Admin. I	1
Executive Officer III	1
Assessment Audit	1
Secretary II	1
	5

SCHEDULE I

BLUE CROSS OF ATLANTIC CANADA

PRO FORMA FINANCIAL STATEMENTS

FOR

THE YEARS ENDING DECEMBER 31, 1984, 1985, 1986, 1987, 1988

BLUE CROSS OF ATLANTIC CANADA
AND
*ATLANTIC MUTUAL LIFE ASSURANCE COMPANY
PRO FORMA CONSOLIDATED FINANCIAL STATEMENT
FOR THE YEARS ENDING DECEMBER 31, 1984, 1985, 1986, 1987, 1988
(COMPARED TO THE YEAR ENDING DECEMBER 31, 1983)

	1983 Actual	1984 Budget	1985 Projected	1986 Projected	1987 Projected	1988 Projected
Income						
Subscriber Dues	$ 46,504,318	$ 56,944,000	$ 65,486,000	$ 72,690,000	$ 79,958,000	$ 87,954,000
Insurance Premiums	3,356,368	4,498,900	7,000,000	10,000,000	13,400,000	17,000,000
Administered Programs	44,521,489	55,032,000	60,535,000	66,589,000	73,248,000	**230,572,000
Computer Service	966,745	1,111,000	1,250,000	1,400,000	1,550,000	1,800,000
Investment Income	2,327,583	2,427,675	2,900,000	3,200,000	3,100,000	3,600,000
Rental Income						400,000
	97,676,503	120,013,575	137,171,000	153,879,000	171,256,000	341,326,000
Expenses						
Subscribers' Claims	42,141,948	50,829,000	58,479,000	64,912,000	71,402,000	78,543,000
Policyholder Benefits	2,419,888	3,659,650	5,740,000	8,200,000	10,660,000	13,940,000
Administered Programs' Claims	42,821,422	52,754,000	58,113,600	63,925,000	70,318,000	220,849,000
Taxes, Licences and Fees	348,797	324,828	400,000	450,000	525,000	625,000
Commissions	461,582	704,900	900,000	1,100,000	1,300,000	1,500,000
Operating Expenses	8,634,300	10,461,160	12,000,000	13,710,000	15,050,000	23,300,000
	96,827,937	118,733,538	135,632,600	152,297,000	169,255,000	338,757,000
Net Income	$ 848,566	$ 1,280,037	$ 1,538,400	$ 1,582,000	$ 2,001,000	$ 2,569,000
Extraordinary Income		1,300,000				
		$ 2,580,037				

NOTE

* Atlantic Mutual Life Assurance Company will become Blue Cross Life Insurance Company of Canada on January 1, 1985

** An additional $150,000,000 from N. B. Medicare commencing on January 1, 1988

BLUE CROSS OF ATLANTIC CANADA
AND
*ATLANTIC MUTUAL LIFE ASSURANCE COMPANY
PRO FORMA BALANCE SHEET
FOR THE YEARS ENDING DECEMBER 31, 1984, 1985, 1986, 1987, 1988
(COMPARED TO DECEMBER 31, 1983)

	1983 Actual	1984 Budget	1985 Projected	1986 Projected	1987 Projected	1988 Projected
Assets						
Investments	$ 25,361,583	$ 29,800,000	$ 32,700,000	$ 35,800,000	$ 35,400,000	$ 38,300,000
Accounts receivable	3,794,298	4,500,000	5,300,000	6,300,000	7,000,000	8,000,000
Admininistered Programs' Receivable	5,661,681	7,500,000	8,400,000	9,500,000	10,500,000	25,000,000
Land, Building & equipment, at cost less accumulated depreciation	2,286,404	3,000,000	2,400,000	1,800,000	11,500,000	10,500,000
Other	1,633,137	1,800,000	2,000,000	2,200,000	3,000,000	4,000,000
	$ 38,737,103	$ 46,600,000	$ 50,800,000	$ 55,600,000	$ 67,400,000	$ 85,800,000
Liabilities						
Claims Payable and Accrued	$ 10,871,220	$ 12,000,000	$ 13,500,000	$ 15,000,000	$ 17,000,000	$ 19,000,000
Unearned Subscribers Dues	4,392,913	4,500,000	5,000,000	5,500,000	6,000,000	6,800,000
Accounts Payable and Accrued	2,066,041	2,200,000	2,400,000	3,000,000	3,500,000	4,000,000
Administered Programs' Advances	3,804,000	5,000,000	5,500,000	6,200,000	7,000,000	20,000,000
Mortgage					6,000,000	5,600,000
Members Security Fund and Capital	17,602,929	22,900,000	24,400,000	25,900,000	27,900,000	30,400,000
	$ 38,737,103	$ 46,600,000	$ 50,800,000	$ 55,600,000	$ 67,400,000	$ 85,800,000

NOTE

* Atlantic Mutual Life Assurance Company will become Blue Cross Life Insurance Company of Canada on January 1, 1985

APPENDIX "C"

PROPOSAL

TO TRANSFER

MEDICARE ADMINISTRATION

TO

BLUE CROSS

Presented to:

Premier Richard Hatfield
Province of New Brunswick

February 6, 1985

INTRODUCTION

It should be understood at the outset that the Blue Cross proposal represents a substantial economic development opportunity for the Province of New Brunswick. It is much more than a proposal to administer health care insurance or to revitalize Moncton's downtown core. Those are benefits accruing from the main opportunity.

Over the last ten years, there has been a substantial change in the economic circumstances of Atlantic Canada. Shifts in the economy have been significant with Nova Scotia and Halifax/Dartmouth in particular, being the major growth area. Such growth has occurred for a variety of reasons, not the least of which is the major role that the service sector has come to play in the economy. As a result, Halifax has become the major growth center of the region, capturing most of the financial and regional/head office opportunities. These developments, in turn, have lured other investments to that area.

The recent Secor study, commissioned by the Province of N.B. in cooperation with Moncton, Riverview, and Dieppe, recommended that Moncton position itself as a real alternative to Halifax and pursue private and public regional/head office opportunities. This will be the main source of its economic growth in the next few years. The report also indicated that Moncton has a good chance of becoming the insurance capital of Atlantic Canada. The opportunities are limited. Thus, it is imperative that Moncton capture those limited opportunities and it is, also, important to the Province to have such a business center. (See Appendix A).

The Blue Cross project thus represents far more than simply the transfer of administration from Fredericton to Moncton or from the Government to the private sector. It is far more than Moncton's downtown revitalization.

.../2

THE BENEFITS

The Blue Cross project proposes to establish in the Province of New Brunswick a computer center, second to none in Eastern Canada. This will help to realize one of the Province's major objectives, that of capturing the most advanced technology realistically possible.

The Blue Cross project represents a major step in the establishment of a regional office center in New Brunswick, a center which can then compete head-on with Halifax for that lucrative and dynamic growth sector. It will begin to establish Moncton as the Atlantic Business Center, which was recommended by Secor Inc. and adopted by the Provincial Department of Commerce & Development and the municipalities of Moncton, Riverview, and Dieppe.

In addition, the proposal promises greater administrative efficiency and substantial cost savings to the Province.

Any realistic analysis of the Blue Cross proposal, therefore, must examine four critical areas:

1. Economic Benefits (to Province & Moncton)
2. Technology Benefits
3. Financial Cost-Benefits
4. Administrative Efficiency

1. Economic Benefits

- Helps to establish Moncton as a major regional/head office center
- Captures a significant high growth service sector opportunity for N.B.
- Helps to establish Moncton as the Insurance Capital of Atlantic Canada
- Enhances local ownership of a major business sector
- Establishes a national corporate headquarters in Moncton, N.B.
- Helps to establish Moncton as a viable alternative to Halifax
- Brings 400 jobs into the downtown core
- Will result in the establishment of a major office tower in the downtown core
- Provides significant spinoff opportunities in downtown
- Will make a major contribution to Provincial-Municipal tax base
- Consistent with Secor Strategy recommendations
- Provides "high tech" related employment
- Fosters import substitution (data processing work to be consolidated in the Prov.)
- Would secure the presence of a major regional/head office operation in N.B.
- Secure a growth industry
- Answers Moncton Hospital requirements for more space

.../3

2. Technology Benefits

- Establishes a computer center second to none in Eastern Canada
- Will incorporate the latest computer technology
- Government would benefit from system
- Will make a major contribution to Provincial goal of upgrading science and technology in Province
- Provides an opportunity for data processing experience for work force
- Establishes labour force base to attract other users of similar technology

3. Administrative Benefits

- Economies of scale (data processing)
- Administrative efficiency
- Privatization of a government service
- Will free space in Capital for other uses

4. Financial Benefits

- Cost Benefits (economies of scale)
- Private sector administration

CONCERNS

If the Blue Cross Proposal is judged favourably, as I believe it should be, we must be careful that it does not become watered down to the extent its full economic & technology impact is dissipated to the point of insignificance; i.e. to the point it will not provide the benefits it promises.

.../4

BLUE CROSS RECORD OF ADMINISTERING GOVERNMENT PROGRAMS

When Blue Cross took over the administration of the Drug Program for seniors for the Province of New Brunswick in 1975, it opened up a significant opportunity from which the private sector was able to capitalize and develop spin-off growth. This spin-off effect over the years has benefited the provincial economy through:

a) Increasing numbers of people employed from approximately 160 persons to 297 persons

b) With the enlarged base brought about from the policy of adding the N.B. Seniors Drug Program to the already existing program administration of Blue Cross, company management have succeeded

   i) in attracting other programs from other provinces to be administered from its New Brunswick headquarters, notably the Newfoundland government's Seniors Drug Program and Welfare Drug Program

   ii) in enlarging under controlled shared cost programs, the data processing capabilities within the Province

   iii) in adding a life insurance company to its data processing administration

   iv) in bringing the administration for a National Life group under the control of the New Brunswick administration and data processing team

   v) in bringing innovative technology and skilled employees to New Brunswick for the developing of state and art processing, billing and administrative systems for the handling of claims processing. These skilled personnel are now residents of the Province.

.../5

REGIONAL SUPPORT

The recently established Greater Moncton Economic Development Authority, representing the municipalities of Moncton, Dieppe, and Riverview, have accepted the Blue Cross proposal as a regional project, lending it their full support. The position of the Greater Moncton Economic Development Authority has the full support and concurrance of the region's three mayors. This is viewed as an important step in regional cooperation.

CONCLUSION

To quote from a recent article in the Moncton Times & Transcript of January 16, 1985, "It seems that this (transfer of Medicare to Blue Cross) is one of those fortuitous moments when a number of interests all coincide....It is within the power of the provincial government to kill several birds with one stone, promoting the private sector, improving efficiency, boosting a provincial company, bringing a high-tech center to the provicne, advancing the cause of Moncton's downtown renewal, and trimming the costs of the most essential yet heaviest burden taxpayers carry, that of Medicare."

The only area the editorial does not cover, but which is really the most convincing, is the economic and technology advances to the Province, i.e. that of helping to establish in the Province of N.B. a major regional insurance capital and the headquarters of a national firm. This is the kind of project which will allow this Province a chance to meet the challenge from N.S. head on. This project is of great importance to Moncton and to the Province of New Brunswick.

APPENDIX A

Atlantic Regional Insurance Offices in Moncton:

Name	Employees
Blue Cross	296
Assumption Mutual	140
Co-Op	358
Wawanesa	56

The Times-Transcript

The Moncton Transcript founded May 24, 1882
The Moncton Times founded August 11, 1877
Combined as The Times-Transcript January 3, 1983

MONCTON, N.B., WEDNESDAY, JANUARY 16, 1985

An opportunity to grasp

The idea of Blue Cross of Atlantic Canada taking over the administration of Medicare claims from the provincial government is by no means new, with the genesis going back about nine years. But a formal proposal for a transfer of the claims handling on a no-profit, no-loss basis to Blue Cross was made last spring and is before the government.

It seems to us that this is one of those fortuitous moments when a number of interests all coincide, making the proposal one that almost certainly ought to be approved by the Hatfield government.

There is the angle of holding government costs to the lowest possible level. Blue Cross has a vast expertise in the field of handling medical claims, processing in the order of 15,000 per day. If the proposal submitted would mean a greater economy in the operation of Medcicare in this province, it would be a considerable boon to both Ottawa and Fredericton.

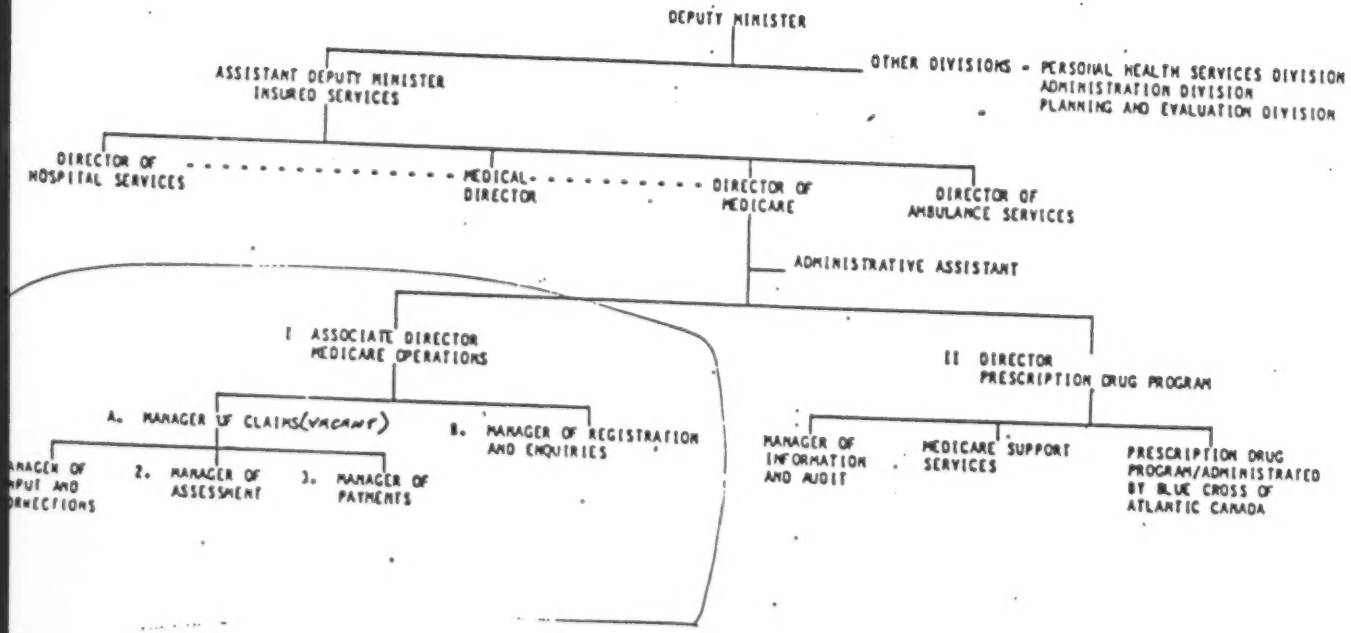
There is the issue of reform of the delivery of social services. While this is inextricably linked with the financial aspect, there is also the angle of efficiency. Without in any way disparaging the present provincial employees, it is not reasonable to believe that a private sector operation might be more efficient than a government bureaucracy?

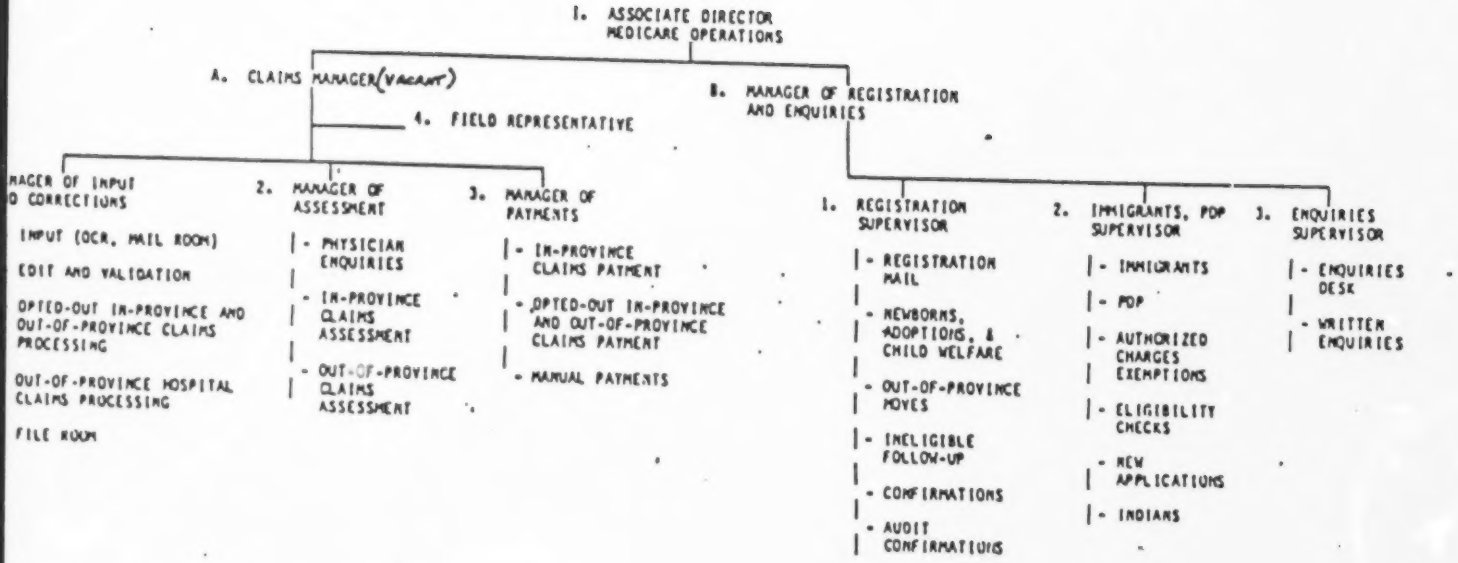
There is a swing in the Western world away from state operations of various sorts and to the private sector. A transfer would be fully in concert with this trend as it is developing in Canada.

Moncton is striving mightily to redevelop its downtown. It recently was stated that Greater Moncton has to accept that the natural core of the area is Downtown Moncton. Blue Cross intends to create a national insurance company and the operation will be headquartered in Moncton. If the responsibility for Medicare processing is given to Blue Cross, the company will have an overall volume from its three sections to warrant the development of a data processing centre using the latest in technology. This would result in the construction of a office complex in the downtown, with all the attendant benefits to the area the infusion of about 400 workers would mean to local businesses. (If this meant Blue Cross would move entirely from its present location, the land and premises freed by such a shift might well be avalable for further developments and for parking for the Moncton Hospital.)

It is within the power of the provincial government to kill several birds with the one stone, promoting the private sector, improving efficiency, boosting a provincial company, bringing a high-tech centre to the province, advancing the cause of Moncton's downtown renewal, and trimming the costs of the most essential yet heaviest burden taxpayers carry, that of Medicare.

All these things come together in a golden opportunity, which — unless there are serious practical objections that exist, as opposed to the philosophical objections of those whose socialist tenets will be battered by a change — ought to be seized with alacrity. The Hatfield government ought to expeditiously come to grips with this matter, rendering an early decision so that Blue Cross knows where it stands.


DEPUTY MINISTER
OTHER DIVISIONS - PERSONAL HEALTH SERVICES DIVISION
ADMINISTRATION DIVISION
PLANNING AND EVALUATION DIVISION
ASSISTANT DEPUTY MINISTER
INSURED SERVICES
DIRECTOR OF
HOSPITAL SERVICES
MEDICAL
DIRECTOR
DIRECTOR OF
MEDICARE
DIRECTOR OF
AMBULANCE SERVICES
ADMINISTRATIVE ASSISTANT
I ASSOCIATE DIRECTOR
MEDICARE OPERATIONS
II DIRECTOR
PRESCRIPTION DRUG PROGRAM
A. MANAGER OF CLAIMS(VACANT)
B. MANAGER OF REGISTRATION
AND ENQUIRIES
NAGER OF
PUT AND
RRECTIONS
2. MANAGER OF
ASSESSMENT
3. MANAGER OF
PAYMENTS
MANAGER OF
INFORMATION
AND AUDIT
MEDICARE SUPPORT
SERVICES
PRESCRIPTION DRUG
PROGRAM/ADMINISTRATED
BY BLUE CROSS OF
ATLANTIC CANADA


1. ASSOCIATE DIRECTOR MEDICARE OPERATIONS
A. CLAIMS MANAGER (VACANT)
4. FIELD REPRESENTATIVE
B. MANAGER OF REGISTRATION AND ENQUIRIES
MAGER OF INPUT D CORRECTIONS
INPUT (OCR, MAIL ROOM)
EDIT AND VALIDATION
OPTED-OUT IN-PROVINCE AND OUT-OF-PROVINCE CLAIMS PROCESSING
OUT-OF-PROVINCE HOSPITAL CLAIMS PROCESSING
FILE ROOM
2. MANAGER OF ASSESSMENT
- PHYSICIAN ENQUIRIES
- IN-PROVINCE CLAIMS ASSESSMENT
- OUT-OF-PROVINCE CLAIMS ASSESSMENT
3. MANAGER OF PAYMENTS
- IN-PROVINCE CLAIMS PAYMENT
- OPTED-OUT IN-PROVINCE AND OUT-OF-PROVINCE CLAIMS PAYMENT
- MANUAL PAYMENTS
1. REGISTRATION SUPERVISOR
- REGISTRATION MAIL
- NEWBORNS, ADOPTIONS, & CHILD WELFARE
- OUT-OF-PROVINCE MOVES
- INELIGIBLE FOLLOW-UP
- CONFIRMATIONS
- AUDIT CONFIRMATIONS
2. IMMIGRANTS, PDP SUPERVISOR
- IMMIGRANTS
- PDP
- AUTHORIZED CHARGES EXEMPTIONS
- ELIGIBILITY CHECKS
- NEW APPLICATIONS
- INDIANS
3. ENQUIRIES SUPERVISOR
- ENQUIRIES DESK
- WRITTEN ENQUIRIES

MEDICARE PRACTITIONER PAYMENTS

DESCRIPTION	1982/83 ACTUAL	1983/84 ACTUAL	1984/85 A.S.L.
FEE FOR SERVICE			
Pay Physicians	71,881.0	80,427.7	80,228.2
Pay Beneficiary	3,413.7	3,713.4	3,756.5
Sub-Total	75,294.7	84,141.1	83,984.7
Dental	83.4	79.3	80.0
Sub-Total	83.4	79.3	80.0
Optometrist	714.9	958.7	1,040.0
Radiology Fees	6,393.0	6,864.4	6,784.6
ECG, EEG, Echo, All Other	1,182.6	1,561.6	1,599.7
Emergency Department	1,164.0	1,291.5	1,298.0
Sub Total	9,454.5	10,676.2	10,722.3
Total Fee For Services	84,832.6	94,896.6	94,787.0
Non-Fee for Service			
Salaried Physicians	5,605.6	6,131.8	7,403.6
Sessional Fees	2,162.9	2,699.6	3,153.2
Residency training			
- Teaching Physicians	1,301.7	1,281.0	1,137.7
- Residents Salaires	625.8	1,657.3	2,285.9
Summer Student Program	193.9	216.6	215.5
All Other Phys. Program	149.2	309.4	304.4
Total Non-Fee Service	10,039.1	12,295.7	14,500.3
Total Medicare	94,871.7	107,192.3	109,287.3

OUT OF PROVINCE HOSPITAL PAYMENTS

PAYMENTS FOR N. B. RESIDENTS	17,936.9	17,914.5	21,932.3
PAYMENTS TO N. B. HOSPITALS	5,852.0	9,904.7	9,958.6
TOTAL PAYMENTS	23,788.9	27,819.2	31,890.9

141,1782

MEDICARE ADMINISTRATION COST

	1984/85 Budget	1983/84 Actual
Regular Civil Service Pay	$1,493,865	$1,429,541
Overtime Civil Service Pay	5,000	2,023
Retiring Allowance Civil Service Pay	9,832	0
Civil Service Payroll Sub Total	$1,508,697	$1,431,564
Casual Payroll	49,110	42,581
Blue Cross, UIC*1	58,593	47,109
Total Salary Expenses	$1,616,400	$1,521,254
Advertising	5,250	0
Freight Express Cartage	0	4,206
Other Services	0	100
Office Equipment Service Contract	19,740	20,335
Other Inspection Services	0	383
Postage	121,000	70,836
Legal Services - Third Party	200,000	258,389
Accounting Services	0	5,685
Printing & Copying	24,150	10,927
Rentals	0	3,964
Repair Services	0	1,406
Telephones	33,464	30,457
Travel Expenses	14,700	13,700
Vehicles Machines, Equipment Supplies	0	1,909
Photographic Supplies	0	9,842
Paper Pencils Pens Etc.	5,250	6,029
Forms	128,550	90,399
Office Furniture & Equipment	5,400	0
TOTAL MEDICARE ADMINISTRATION	$2,173,904	$2,049,821
TOTAL DATA PROCESSING COSTS	$2,216,000	$2,033,700

4083 521

NOTES

*1. Does not include CPP, Group Insurance or Pension (estimated at an additional 8% of Payroll Costs).

2. The above does not include the cost of space, services and utilities currently costing $240,000 per annum.

3. Approximately 50% of the Medical Director's Office is dedicated to Medicare programs at an estimated cost of $125,000 per annum.

Software development costs for Medicare's new claims processing and payment system - $3,500,000 plus Medicare staff participation not included in this figure.

5. Operational Data

Volumes of Claims Processed

	1983/84 Actual	1984/85 Estimate
Computer Processed		
Practitioner Payments		
In Province	3,400,000	3,500,000
Out of Province	80,000	85,000
No. of Above Claims Assessed	144,000	140,000
No. of Above Claims Corrected	250,000	315,000
Manual		
Physician Services	4,200 (est.)	4,200
Out of Province Hospital Claims		
In Province	5,000	5,500
Out of Province	18,500	21,000

No. of Computer Terminals 37

printers, etc

RAM Requirements

When related to speed and I/O limits would require the equivalent of a UNIVAC 1183-3 Megabytes of Memory and a speed of 7 MIPS (million instructions per second).

In addition for purge requirements would need 10 Tape Drives to accomodate completing a claims' purge during a weekend.

Mass Storage Requirements

500,000 tracks (in UNIVAC terms 1 track = 1792 words).

MEDICARE EQUIPMENT

1 Kodak 700 Microfilmer

1 Kodak IMT 150 (Microfilm Reader/Printer)

7 Kodak Microstar PR1 (Microfilm Readers)

1 Canon Canorama 370 Microfiche Reader/Printer

4 Canon Canorama 360 Microfiche Readers

1 Pitney Bowes Tickometer

1 Pitney Bowes Mailopener

1 AES Plus Word Processer and Printer

Also use:

1 Pitney Bowes Mailing Machine (Department of Health)

1 Pitney Bowes Electronic Scales (Department of Health)

1 OCR Machine (Department of Supply & Services)

+ plus office equipment for staff

- Chairs
- desk
- typewriter
- cal
- etc.

↓ is this used by anyone else